

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE LESEDI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Lesedi Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As by section 188 of the Constitution of the Republic of South Africa, 1996, section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lesedi Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

9. With reference to note 39 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liabilities that may result has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 30 June 2011 in the financial statements of Lesedi Local Municipality at, and for the year ended, 30 June 2010.

Material losses and impairments

11. As disclosed in note 50 to the financial statements, the municipality suffered significant water and electricity distribution losses of 11 350 050 kilolitres and 33 800 974 kilowatts with a value of R5 163 698 and R16 716 215 respectively.
12. As disclosed in note 12 to the financial statements, material losses to the amount of R10 981 235 were incurred as a result of a write-off of irrecoverable consumer debtors.

Material impairments

13. As disclosed in note 12 to the financial statements, material impairments to the amount of R26 696 721 were incurred as the recoverability of these amounts is doubtful.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

15. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

17. The reported performance information was deficient in respect of the following criteria:

- **Measurability:** The indicators are not well-defined, and targets are not specific, measurable and time-bound.

18. The following audit findings relate to the above criteria:

Planned and reported targets are not specific, measurable and time bound

19. For the service delivery and infrastructure development unit, 100% of the planned and reported targets were not:

- specific in clearly identify the nature and the required level of performance;
- measurable in identifying the required performance;
- time bound in specifying the time period or deadline for delivery.

Compliance with laws and regulations

Annual financial statements, performance and annual report

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of the capital assets, current assets, liabilities identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

21. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 99(2)(b) of the MFMA.

INTERNAL CONTROL

22. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

23. The accounting officer did not exercise adequate oversight to ensure compliance with all laws and regulations, and more specifically with regards to compliance with the MFMA.

24. The accounting officer did not monitor the implementation of action plans to address internal control deficiencies as controls to ensure that payments are made within 30 days were not adequate.

25. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective action.

Financial and performance management

26. The financial statements were not adequately reviewed for completeness and accuracy by senior management, prior to submission for auditing, as they were subjected to material amendments.

Auditor-General

Johannesburg

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

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